

Department of State

**For the Years Ended
June 30, 1997, and June 30, 1996**

**Arthur A. Hayes, Jr.,
CPA**

Director

Charles K. Bridges, CPA

Assistant Director

Debra D. Bloomingburg, CPA

Audit Manager

Karna E. Logan

In-Charge Auditor

Teressa Caldwell

Mike Edwards, CPA

Jason Henderson

Staff Auditors

Jane Russ

Editor

January 11, 1999

The Honorable Don Sundquist, Governor
and
The Honorable Riley C. Darnell, Secretary of State
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of State for the years ended June 30, 1997, and June 30, 1996.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of State is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of State's management in a separate letter.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/ms
98/055

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Department of State

For the Years Ended June 30, 1997, and June 30, 1996

AUDIT SCOPE

We have audited the Department of State for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, revenue, expenditures, payroll and personnel, charitable solicitations, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Cash-Receipting Function Not Adequate*

No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented even though the proper fee had not been received, and the department could lose revenue (page 4).

Duties Not Adequately Segregated*

Duties in the fiscal and personnel offices are not adequately segregated. The purchasing clerk is performing personnel duties while an accounting technician and an administrative assistant who process payments in the fiscal office are performing purchasing duties (page 5).

* This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of State
For the Years Ended June 30, 1997, and June 30, 1996

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	3
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	3
Revenue	3
Finding 1 - The cash-receipting function of the Corporate Management System is not adequate	4
Payroll and Personnel	4
Finding 2 - Duties in the fiscal and personnel offices are not adequately segregated	5
Expenditures	6
Equipment	6
Charitable Solicitations	7
Financial Integrity Act	7
Department of Finance and Administration Policy 20, “Recording of Federal Grant Expenditures and Revenues”	8
PRIOR AUDIT FINDINGS	9
Resolved Audit Findings	9
Repeated Audit Findings	9
OBSERVATIONS AND COMMENTS	9
Title VI of the Civil Rights Act of 1964	9

TABLE OF CONTENTS (CONT.)

	<u>Page</u>
APPENDIX	11
Divisions and Allotment Codes	11
Funding Sources-Fiscal Year Ended June 30, 1997	12
Funding Sources-Fiscal Year Ended June 30, 1996	12

Department of State

For the Years Ended June 30, 1997, and June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of State. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

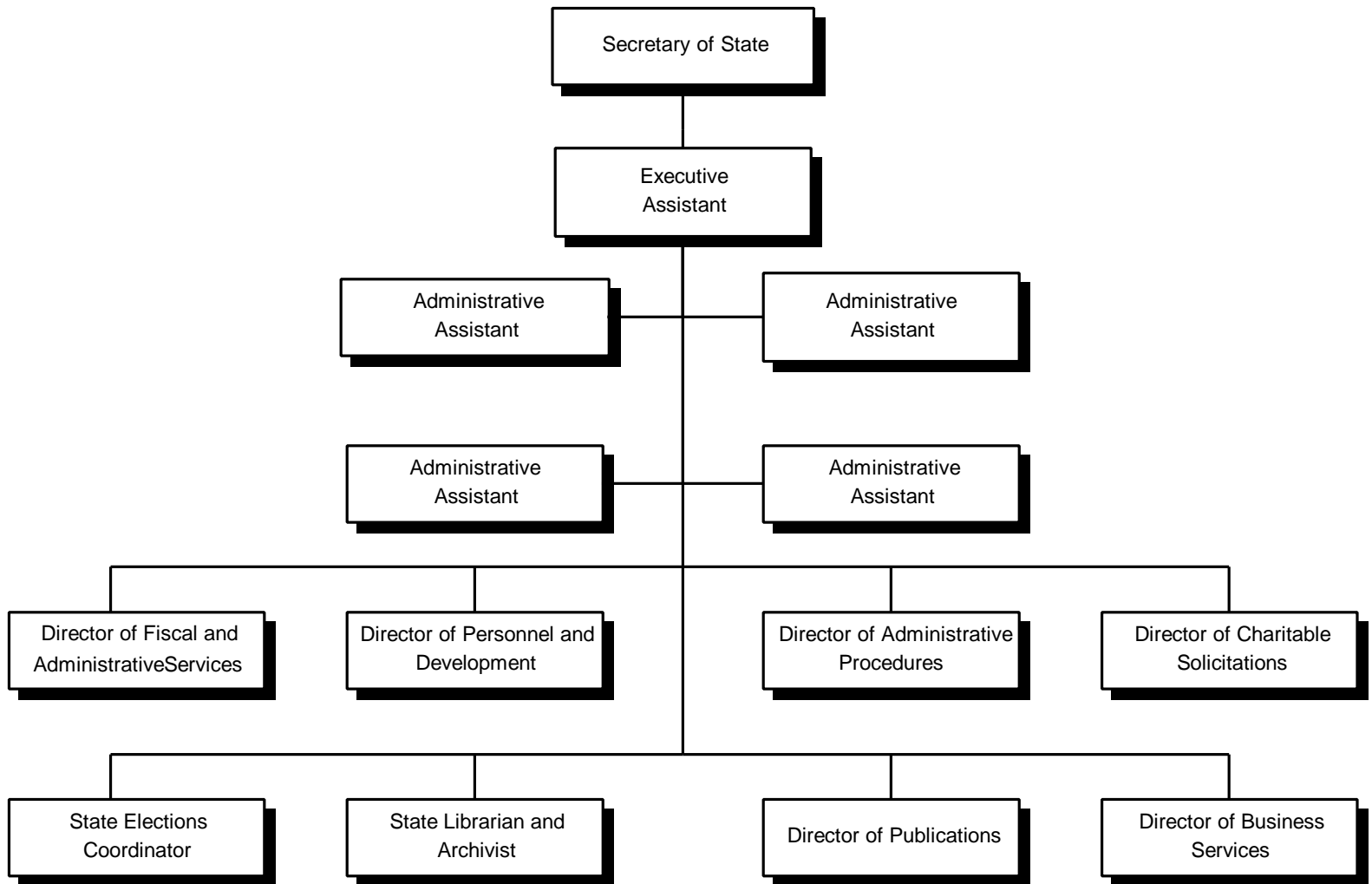
The Secretary of State is one of three constitutional officers provided by Tennessee’s Constitution. The Secretary of State, according to the Constitution, is to maintain a register of the official acts and proceedings of the Governor and is to be prepared to present them before the General Assembly. Additional functions of the Secretary of State are outlined in the state statutes and regulations.

The Secretary of State is chief officer of the Department of State. The Department of State keeps the original copies of all acts and resolutions adopted by the General Assembly and signed by the Governor. Certified copies of public and private acts are available for a nominal fee. The department is also required by statute to keep other records: the receipt and recording of corporate charters, the receipt of trademarks, the execution of notary commissions, and the receipt of state administrative regulations.

The Department of State is organized into eight major divisions: Fiscal and Administrative Services, Personnel and Development, Administrative Procedures, Business Services, Charitable Solicitations, State Elections, Library and Archives, and Publications.

An organization chart of the department is on the following page.

Department of State Organization Chart



AUDIT SCOPE

We have audited the Department of State for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, revenue, expenditures, payroll and personnel, charitable solicitations, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

The objectives of our review of the revenue controls and procedures were to determine whether

- revenue transactions were properly recorded and valid;
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year;
- revenue functions were adequately segregated and physical controls over cash were adequate;
- fees were billed or charged and recorded at the correct amount; and
- petty cash or change funds were authorized by the Department of Finance and Administration.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over revenues. We also tested a sample of revenues. We determined that the cash-receipting function of the Corporate Management System is not adequate, as discussed in finding 1. In addition to the finding, other minor weaknesses came to our attention and were reported to management in a separate letter.

1. The cash-receipting function of the Corporate Management System is not adequate

Finding

As noted in the prior four audits covering seven years, improvements are needed in the cash-receipting procedures of the Corporate Management System (CMS), a computerized system that provides information on corporate filings and other service fees. The system was implemented to simultaneously document services, such as issuing notary commissions and registering trademarks, and receipt the fees collected. The majority of the fees collected flow through this system. However, no controls are in place within CMS to prevent data-entry clerks from assigning the same receipt number to several documents. Therefore, documents could be filed and recorded, even though the proper fee had not been received. Failure to correct the cash-receipting problem could result in a loss of revenue for the department.

Management concurred with the prior findings and documented and reported the cash-receipting problem to Application Programming Support (APS) in the Department of Finance and Administration. APS estimated the cost of correcting the problem would be high. As a result, Department of State management decided to replace CMS with a new system rather than make the necessary program changes to CMS. The new system should be installed in fiscal year 1999.

Recommendation

Management should continue to pursue the installation of a new system that will ensure documents cannot be filed unless the fee remitted by the customer is sufficient to cover all documents submitted for filing.

Management's Comment

We concur. Development of the new system has begun.

PAYROLL AND PERSONNEL

The objectives of our review of the payroll and personnel controls and procedures were to determine whether

- payroll and personnel functions were adequately segregated;
- payroll disbursements (wages, salaries, and benefits) were made only for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;

- payroll was recorded correctly as to amount and period and was distributed properly by account, fund, and budget category; and
- payroll charges to federal grants, if applicable, were adequately supported and properly distributed.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over payroll and personnel. We also tested a sample of payroll transactions. We determined that duties in the fiscal and personnel offices are not adequately segregated, as noted in finding 2. In addition to the finding, other minor weaknesses came to our attention and were reported to management in a separate letter.

2. Duties in the fiscal and personnel offices are not adequately segregated

Finding

As noted in the prior two audits, duties in the fiscal and personnel offices are not adequately segregated. Management concurred with the prior audit finding and stated that "there is presently only one staff member in the personnel division. This is not an adequate resource to execute all personnel transactions as well as other personnel duties.... Likewise, there are presently only four accounting office staff members. Total segregation in all accounting duties would leave the office unable to function in the absence of any one staff member."

In addition to performing purchasing duties, the purchasing clerk in the fiscal office enters personnel information into the State of Tennessee Employee Information System (SEIS) and maintains the personnel portion of employee files. Because this employee is performing personnel duties, she does not have enough time to complete all of her purchasing duties. As a result, a fiscal office accounting technician and an administrative assistant, who both process payments, are also performing some of the purchasing duties. The administrative assistant in the personnel section completes some of the personnel paperwork, coordinates training for the department, and assists in interviewing and screening job applicants.

Good internal control procedures dictate that accounting duties be properly assigned and segregated. The same person may not perform purchasing duties and process payments.

Recommendation

Although a limited number of employees are available to perform the accounting and personnel functions, management should consider reassigning duties among these employees to effectively segregate duties. Employees in the personnel office should process all personnel-related paperwork, enter all personnel transactions into SEIS, and maintain the personnel portion of employee files. The purchasing clerk should perform all purchasing duties, and the accounting technician and administrative assistant in the fiscal office should process the payments.

Management's Comment

We concur. Management agrees that appropriate segregation of duties is important and will be pursued to the extent possible with present staff levels.

EXPENDITURES

The objectives of our review of the expenditure controls and procedures were to determine whether

- expenditures for goods or services were identified and recorded correctly as to account, fund, budget category, period, and amount;
- expenditures for goods or services were authorized and in accordance with the budget and other regulations or requirements;
- payments were made in a timely manner;
- payments for travel were made in accordance with the Comprehensive Travel Regulations; and
- contracts were made in accordance with regulations and contract payments complied with contract terms and purchasing guidelines.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over expenditures. We also tested a sample of expenditures. We had no findings related to expenditures; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

EQUIPMENT

The objectives of our review of the equipment controls and procedures were to determine whether

- property and equipment in the general fixed asset account group represented a complete and valid listing of the costs of assets purchased or leased and physically on hand;
- cost and related depreciation, if applicable, associated with all sold, abandoned, damaged, or obsolete fixed assets had been removed from the account group;
- property and equipment were adequately safeguarded; and
- equipment purchases charged to federal grants, if applicable, complied with applicable guidelines.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over equipment. We also tested a sample of equipment. We had no findings related to equipment; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

CHARITABLE SOLICITATIONS

The objectives of our review of the charitable solicitations controls and procedures were to determine whether

- registration statements of charitable solicitors contained the proper information;
- registration renewals of charitable solicitors were filed in a timely manner;
- fees had been charged and recorded at the correct amount;
- policies, procedures, and operations of the compliance review section of the Division of Charitable Solicitations were in accordance with applicable laws and regulations; and
- procedures had been implemented to ensure potential conflicts of interest were identified and disclosed.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over charitable solicitations. We also tested a sample of charitable solicitors. We had no findings related to charitable solicitations; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to evaluate its systems of internal accounting and administrative control annually and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the Department of State's compliance with the Financial Integrity Act were to determine whether

- the department's reports were filed in compliance with the Financial Integrity Act of 1983;
- documentation to support the department's evaluation was properly maintained;
- procedures used in compiling information for the reports were adequate; and
- corrective actions had been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration. The Financial Integrity Act reports were submitted on time.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,
“RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and whether related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department negotiated an appropriate indirect cost recovery plan, and whether indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedules of federal assistance and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department’s procedures and controls concerning Policy 20. We had no findings related to Policy 20.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of State filed its report with the Department of Audit on March 17, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of State had corrected previous audit findings concerning inadequate reconciliations of revenue with STARS, noncompliance with leave, time and attendance recordkeeping policies and procedures, inappropriate spending of restricted funds, and noncompliance with state purchasing procedures.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate segregation of duties between the fiscal and personnel offices and inadequate cash-receipting procedures for the Corporate Management System. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1997, the Department of State filed its compliance report and implementation plan on June 30, 1997, and for the year ended June 30, 1996, on June 28, 1996.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

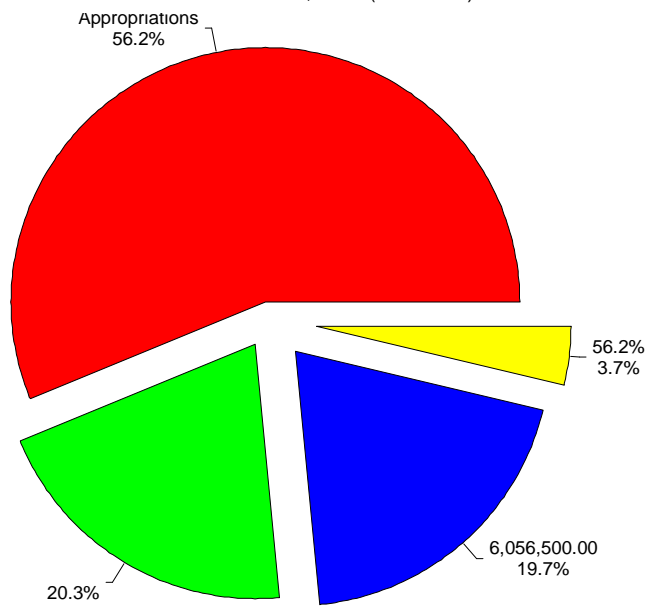
APPENDIX

Department of State divisions and allotment codes:

305.01	Secretary of State
305.02	State Election Commission
305.03	Public Documents
305.04	State Library and Archives
305.05	Regional Libraries
305.06	Construction Grants
305.07	Registry of Election Finance

Funding Sources

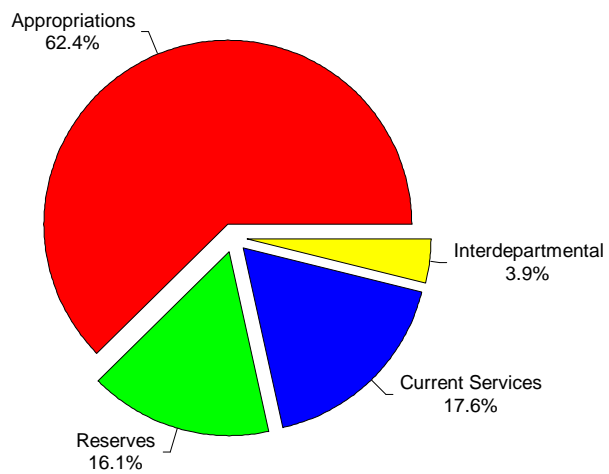
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Secretary of State

Funding Sources

Fiscal Year Ended June 30, 1996 (Unaudited)



Source: Secretary of State